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C O N F I D E N T I A L SECTION 01 OF 04 ABUJA 002161

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TAGS: ECON EIND EINT EINV ELAB ENRG ETRD NI
SUBJECT: NIGERIA: WHITE ELEPHANT STEEL COMPLEX TO GULP MORE CASH

REF: LAGOS 1799

CLASSIFIED BY COUNSELOR JAMES MAXSTADT FOR REASONS 1.5 (B) AND (D).

¶1. (C) Summary: In June 2003, the GON awarded SOLGAS (a U.S.-based energy company) sole rights to refurbish the yet to operate Ajaokuta Steel Complex, to sell energy to the national grid from the Complex's electric plant, and to operate a yet to be built LNG-fired electric plant. Despite claims by SOLGAS and the GON that Ajaokuta would produce 1.3 million tons of steel per year in 18 to 24 months and supply 2300 MW of energy to the complex and national power grid by 2005, the GON and SOLGAS representatives have yet to name investors or provide a basic feasibility study for the estimated USD 4 billion in investment projects.

¶2. (C) Since 1979, the GON has spent more than USD 5 billion on the Ajaokuta Complex and is now poised to spend hundreds of millions more in the coming years on what most energy experts call a White Elephant. President Obasanjo, nonetheless, has tied manufacturing steel and producing power at Ajaokuta to national pride, to poverty reduction through industrialization and job creation, and to breaking away from the West to make Nigeria a major steel producer and exporter. Ajaokuta may produce steel one day and the GON may build a multi-billion dollar pipeline and LNG-fired electric plant for the complex, but if history is a lesson, this White Elephant will consume more of the GON's limited resources without returning any benefits. End Summary.

Money, Money, Money

¶3. (U) In June 2003, the GON brokered a deal giving SOLGAS, and its Nigerian subsidiary SOLGAS Energy Nigeria Limited, the sole rights to:

-- complete and operate Ajaokuta's steel production complex,

-- supply electric power to the national grid from Ajaokuta's present generating plant, and

-- operate a not yet constructed LNG-fired electric plant to be funded by the GON.

In the agreement, SOLGAS will operate the steel complex and electric plants until June 2013, keeping any profits from the operations. SOLGAS, a small U.S. energy service provider, has never managed or operated a steel factory. It has, however, brokered several energy deals in Russia over the last ten years, according to SOLGAS' CEO Thomas Russell.

¶4. (C) In a private meeting with Econoff early December, SOLGAS's Nigeria-based Vice Chairman Oluwaseun "Seun" Oyefeso said the only reason SOLGAS was in Nigeria was to enter the electricity and gas markets, and to make "money, money, money". He admitted privately that taking control of Ajaokuta was only a quick way to enter the Nigerian energy market. SOLGAS saw the steel operation as political expediency: President Obasanjo and Vice President Atiku wanted something to show they were committed to industrializing Nigeria and providing jobs. Oyefeso said that figures cited by him in the press that Ajaokuta would employ up to 9,000 staff were "for the press," and he said SOLGAS's claim that it would provide USD 3.6 billion to the project were overstated by the GON and the press. Oyefeso stated that his claim in late November, that Ajaokuta would make a USD 5 billion profit in ten years, was if "everything went well".

Not Peanuts: Over USD 5 Billion Spent Before SOLGAS

¶5. (U) According to the GON and Embassy contacts, since 1979 Ajaokuta Steel Complex has been used as a mechanism to grant contracts to contractors performing substandard work at overinflated prices while providing senior GON officials with large kickbacks. The GON estimates it has spent at least USD 5 billion on what was to be Africa's largest steel production facility, while World Bank estimates put the cost at about USD 7 billion (not adjusted for inflation). President Obasanjo's military government in 1979 began the project with Russian and German technical partners. That Obasanjo administration may have thought the project feasible,

according to an Irish engineer who was a member of Ajaokuta's construction team in the 1980s, but within a few months senior GON officials were already siphoning off millions in kickbacks from real and false contracts for the complex's construction. Construction continued until 1983, when the newly installed Buhari military regime cut the project's funding. From 1990 to 1996 construction of the plant resumed, but it was halted in 1996 by Abacha's regime with about 90 percent of Ajaokuta completed.

¶6. (C) Embassy sources say Abacha had made all the money he could from Ajaokuta by that point, and never intended to complete or operate the plant. For example, Abacha directed the GON to purchase the debt it owed Russia for Ajakouta's construction for 53 percent of its face value. Abacha then cooked the books to show that the GON had paid the debt in full to Russia, pocketing nearly 75 percent of the debt scheme profit for himself. Since 1979, the GON has also paid and housed Ajaokuta's estimated 4,500 workers, and maintained the 24,000 hectare property and steel operations.

White Elephant's New Mates?

¶7. (C) Over the last two months, Econoff toured the Ajaokuta Steel Complex in Kogi State and met three separate times with SOLGAS's CEO Tom Russell and Nigeria-based Executive Vice Chairman Seun Oyefeso. During a November meeting at Ajaokuta of SOLGAS's Nigerian Board of Directors, Oyefeso assured Econoff that under SOLGAS management Ajaokuta would roll steel billets (imported from Ukraine) by the end of December, sell power from Ajaokuta's electric plant to the national power grid within 6 months, sell steel in 18 to 24 months from fully operational blast furnaces and 2 rolling mills, and have a fully operational LNG-fired electric plant connected to the national grid "shortly." Oyefeso said American companies (Lexicon/Schueck Steel and IBM) and a Russian company (Zarubezhstroimontazh) were also involved in completing and bringing Ajaokuta steel production on-line.

¶8. (C) Oyefeso told Econoff in early December that SOLGAS was partnering with Lexicon/Schueck Steel, whose officials had visited Ajaokuta's steel complex and said it was "in excellent condition." Lexicon/Schueck Steel officials in the United States in the second week of December told Econoff by telephone that they had discussed the project with SOLGAS. They denied visiting Nigeria, or partnering with SOLGAS on the project.

But the Cage Still Stinks,

¶9. (U) While visiting Ajaokuta, Econoff noted several major impediments to actually operating the plant and producing steel at a competitive prices in a slumping Nigerian steel market. All iron ore and coking coal needs to be imported and transported to the plant, even though Nigeria has large reserves of coal and iron ore sitting unearthed in defunct mines. Ajaokuta's needs new multi-million dollar loading docks. The Niger river can only be navigated to Ajaokuta during 8 months of the year, connector roads are in poor condition, and rail lines have yet to be completed. Most of Ajaokuta's staff (average age 42 years old) have never performed their jobs and need training.

And So Does the Deal

¶10. (U) The June agreement between SOLGAS and the GON holds SOLGAS blameless against any claims or liabilities occurring in the course of its ten-year management agreement. The estimated costs for the project as envisioned in the agreement are:

refurbish the steel complex - USD 1.25 billion

construction of the additional gas-powered electricity generating plant system to supply "2300 MW" to the steel plant and national grid - USD 2.5 billion.

¶11. (U) An additional cost not included in the agreement is that the GON has yet to complete the Ajaokuta-Warri rail line (reftel) connecting the steel complex to the port in Warri. The line is necessary to supply Ajaokuta with (imported) coal and iron ore, and to transport Ajaokuta's finished product even as far as its home market in densely populated southern Nigeria. The GON has already spent several hundred million USD on the line, but failed to pay the contractor who then halted construction. It is estimated that the GON will have to spend another USD 150 million to complete the line, while millions more will have to be spent on rolling stock.
¶12. (U) The GON will also have to spend an estimated USG 115 million for a new gas processing facility to make the gas-powered electricity generating plant feasible, plus millions more to get the gas there from where it is produced elsewhere in southern Nigeria. Despite the estimated total

for the entire project being near USD 4 billion, and SOLGAS not having anything like that to invest nor the expertise to make steel, the June GON-SOLGAS agreement did not mention who SOLGAS's financial or technical partners would be.

Another 419 Scam?

¶13. (C) SOLGAS's CEO Tom Russell and SOLGAS's Nigerian-based Vice President Seun Oyefeso have had a difficult time getting their stories straight. Asked in late October who was financing Ajaokuta's completion, Russell asked Econoff to "pray" for SOLGAS that it gets financing, but for the moment it is relying on its "stockholders." Russell had not contacted OPIC, Ex-Im or USTDA, but claimed last May to have had contacts "high-up" at the White House. Oyefeso then told Econoff in early December that he wanted to be truthful with the Embassy, as SOLGAS's operating Ajaokuta is seen by many in the GON as "an American deal," and admitted that producing energy, not steel, was SOLGAS's goal at Ajaokuta.

¶14. (C) At the same luncheon meeting in early December, Oyefeso said he had worked "a long time" at SOLGAS's office in Texas. After looking at Oyefeso's Nigerian passport and United States visas, Econoff verified that Oyefeso had never obtained a work or student visa for the United States. Oyefeso also claimed to Econoff that he was a U.S.-trained firefighter/paramedic, and had won an award for saving a woman's life on a "United or Delta flight." Oyefeso's previous false statement about SOLGAS's ties to Lexicon/Schueck and his lack of candor on his ties to the United States make him suspect on that one too, and he travels in Nigeria with two bodyguards and five Nigerian policemen.

¶15. (C) A senior Nigerian National Petroleum Corporation (NNPC) official told Econoff last week that SOLGAS asked NNPC in mid-June to back SOLGAS's borrowing for Ajaokuta with Nigerian crude oil. The NNPC official said former NNPC Group Managing Director Gaius-Obaseki flatly refused. The NNPC official said he doubted SOLGAS had any financial backing, saying the SOLGAS-GON arrangement may be another "419 scam" (fraud). He stated that with new management at NNPC, SOLGAS may receive President Obasanjo's backing for NNPC to secure SOLGAS's borrowing with Nigerian crude, but that this would only mean that the GON would ultimately pay for the loans when SOLGAS went bust.

What's In It for the GON

¶16. (C) Within the GON and Nigerian Government parastatals, there is a belief that "Western-controlled" institutions, especially the World Bank, have sabotaged Nigeria's steel industry. The World Bank recommended several times in the past five years that the GON scrap Ajaokuta's steel production facility and concentrate only on power production at the plant. Several GON officials stated to Econoff that this recommendation was proof the Bank was protecting Western Governments' steel industries and deliberately keeping Nigeria from joining the industrialized world. World Bank officials have stated that steel production at Ajaokuta -- with its outdated equipment, no coking coal and iron ore, and likely high cost of production (and not including the USD 7 billion already spent on the project) -- would most likely not be profitable.

¶17. (C) Ajaokuta's completion and operation remains one of President Obasanjo's campaign promises for his second term. Obasanjo has repeatedly stated that Nigeria cannot catch up with the Western World unless Nigeria industrializes and produces steel. It fits well with many of Obasanjo's other promises -- maintaining a national air carrier, revitalizing the rail network, and privatizing the GON's oil refineries and downstream oil sector -- that are continuing in more above-board (if still costly) fashion.

What's In It for Us -- Trouble

¶18. (C) Comment: It is likely Ajaokuta will roll at least some Ukrainian imported billets by the end of this year, largely to meet GON political expectations that Ajaokuta is working and will soon be employing thousands more Nigerians. Senior GON officials and foreign contractors may see the obsession with producing steel and power at Ajaokuta as a means for them to steal millions more in contracting fraud. It is difficult to say what role SOLGAS is playing at Ajaokuta, but it is clear that the company:

-- is not interested in producing steel,

-- has no major financing of its own to complete the present facility, and

-- is relying on the GON to build a new USD 2.5 billion power

plant at Ajaokuta, a gas pipeline, rail system, and supply natural gas at a considerable markdown.

SOLGAS has prominently portrayed itself as an American company, and fraud or failure at Ajaokuta may spark anti-American reports in the media and anti-American sentiments within the GON. End Comment.
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